

Message Text

LIMITED OFFICIAL USE

PAGE 01 STATE 203173
ORIGIN SS-25

INFO OCT-01 ISO-00 SSO-00 /026 R

DRAFTED BY EA/J:RNKILPATRICK:BCL
APPROVED BY EA/J - ALAN D. ROMBERG
NSC - MR. PLATT
STR - MR. RIVERS
S/S:O-RCASTRODALE

-----036110 110137Z /66

P 102309Z AUG 78
FM SECSTATE WASHDC
TO AMEMBASSY TOKYO PRIORITY

LIMITED OFFICIAL USE STATE 203173

EXDIS

E.O. 11652:GDS

TAGS: ETRD, JA, US

SUBJECT:STR STRAUSS LETTER TO CONGRESSMAN VANIK

1. FOLLOWING IS TEXT OF LETTER DATED AUGUST 9, 1978 FROM
STR STRAUSS TO CONGRESSMAN CHARLES A. VANIK IN REPLY TO
JULY 25 VANIK LETTER TO THE PRESIDENT:

2. BEGIN TEXT: DEAR CONGRESSMAN VANIK:

THE PRESIDENT HAS ASKED ME TO REPLY ON HIS BEHALF TO YOUR
LETTER OF JULY 25 REGARDING OUR DIFFICULT BALANCE OF PAY-
MENTS SITUATION.

WE FULLY SHARE YOUR CONCERN ABOUT THE CONTINUING WEAKNESS
OF THE DOLLAR AND THE PERSISTENCE OF THE BALANCE OF PAYMENTS
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 203173

DEFICIT. WE CLEARLY CANNOT SUSTAIN THE LARGE BALANCE OF
PAYMENTS DEFICITS WE HAVE HAD OVER THE RECENT PERIOD WITH-
OUT DESTROYING INTERNATIONAL CONFIDENCE IN THE U.S. DOLLAR
AND THE U.S. ECONOMY. JAPAN'S HUGE TRADE SURPLUS HAS BEEN
A MATTER OF PARTICULAR CONCERN TO ME, AS YOU KNOW, AND WE
MUST CLEARLY ACHIEVE A TURNAROUND IN THAT SITUATION.

OUR APPROACH TO OUR BALANCE OF PAYMENTS PROBLEMS HAS BEEN
TO DEAL WITH FUNDAMENTALS. WE HAVE ADOPTED AN ANTI-

INFLATION PROGRAM THAT IS DESIGNED TO IMPROVE THE
COMPETITIVENESS OF U.S. EXPORTS. WE HAVE PROPOSED TO THE
CONGRESS AN ENERGY PROGRAM THAT COULD SIGNIFICANTLY RE-
DUCE OUR IMPORT REQUIREMENT FOR FOREIGN OIL. WE HAVE BEEN
SEEKING WAYS TO MAKE U.S. BUSINESS MORE EXPORT CONSCIOUS.
AND WE HAVE MADE CONCENTRATED EFFORTS TO PERSUADE OTHER
COUNTRIES TO INCREASE THEIR DEMAND AND TO REDUCE THEIR
BARRIERS TO U.S. EXPORTS.

WE HAVE WORKED CLOSELY WITH THE LEADERS OF JAPAN TO DETER-
MINE HOW EACH OF US COULD BEST CONTRIBUTE TO A SOLUTION
OF OUR TRADE IMBALANCE. THE JAPANESE GOVERNMENT AGREES
THAT THE CURRENT SITUATION IS INTOLERABLE, AND MUST BE
CORRECTED. OVER THE LAST FEW MONTHS IT HAS TAKEN A NUMBER
OF STEPS TO CORRECT THE IMBALANCE, WHICH MUST BE DONE
BASICALLY BY REDIRECTING JAPANESE PRODUCTION TOWARD
SATISFYING DOMESTIC JAPANESE DEMAND. JAPAN'S BUDGETARY
POLICY IS DIRECTED TOWARD THIS OBJECTIVE. THE JAPANESE
GOVERNMENT HAS ALSO TAKEN A NUMBER OF REMEDIAL ACTIONS
AIMED AT REMOVING OBSTACLES TO IMPORTS, INCLUDING RE-
DUCING TARIFFS AND ENGAGING IN A JOINT EFFORT TO IDENTIFY
AND ELIMINATE BUREAUCRATIC OBSTACLES. IN MY VIEW THESE
STEPS HAVE BEEN USEFUL AND THEY HAVE BEEN RESPONSIVE,
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 STATE 203173

ALTHOUGH THE SHORT-TERM IMPACT ON THE TRADE BALANCE WILL BE
SLIGHT, PENDING A MORE FUNDAMENTAL STRUCTURAL ADJUSTMENT.
AT THE SAME TIME FURTHER STEPS ARE IMPERATIVE, PARTICULARLY
IN THE AREA OF AGRICULTURAL RESTRICTIONS.

IN ADDITION TO THE ACTIONS TAKEN BY THE GOVERNMENT OF
JAPAN, THE JAPANESE YEN HAS APPRECIATED ALMOST 40 PERCENT
VIS-A-VIS THE U.S. DOLLAR OVER THE PAST 18 MONTHS. THIS
LARGE INCREASE IN THE DOLLAR VALUE OF THE YEN HAS THE
EQUIVALENT IMPACT OF A NEARLY 40 PERCENT SURCHARGE ON
JAPANESE GOODS IMPORTED TO THE UNITED STATES, AND A 40
PERCENT SUBSIDY ON U.S. GOODS EXPORTED TO JAPAN, COMPARED
WITH EARLY 1977. AS YOU SUGGEST IN YOUR LETTER, THESE
CHANGES SHOULD BRING ABOUT A CHANGE IN THE TRADE BALANCE,
AND THERE ARE EARLY SIGNS THAT THE NECESSARY CHANGES ARE
TAKING PLACE. THE VOLUME OF KEY U.S. IMPORTS FROM JAPAN
SUCH AS STEEL AND AUTOMOBILES SEEM TO HAVE LEVELED OFF,
OVER THE PAST FEW MONTHS, AND IF THIS TREND CONTINUES WE
COULD ANTICIPATE AN IMPROVEMENT OF OUR TRADE BALANCE WITH
JAPAN OVER THE MONTHS AHEAD. ONE REASON WHY THIS TURN-
AROUND HAS NOT BEEN MORE OBVIOUS IS THAT THE CONTINUING
APPRECIATION OF THE YEN HAS LED TO A CONTINUING INCREASE

IN THE DOLLAR VALUE OF JAPANESE IMPORTS.

TRADE FLOWS RESPOND TO CHANGES IN EXCHANGE RATES ONLY AFTER
A CONSIDERABLE LAG. ORDERS ARE FREQUENTLY CONTRACTED

MONTHS IN ADVANCE, AND EXPORTERS FREQUENTLY DO NOT ADJUST
THE DOLLAR PRICES OF THEIR GOODS UNTIL MONTHS AFTER THE
APPRECIATION OF THEIR CURRENCY HAS BEGUN TO CUT INTO
THEIR PROFITS. I WOULD EXPECT CONTINUING ADJUSTMENTS IN
THE DOLLAR PRICES OF JAPANESE GOODS IN THE MONTHS AHEAD,
EVEN IF THE YEN DOES NOT APPRECIATE ANY FURTHER.

I SHARE YOUR CONCERN AT THE LONG TIME IT IS TAKING FOR
OUR SITUATION TO IMPROVE. A SURCHARGE ON U.S. IMPORTS
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 STATE 203173

WOULD NOT, HOWEVER, NECESSARILY BRING ABOUT A MORE RAPID
ADJUSTMENT. IT WOULD, AS YOU RECOGNIZE, HAVE A NUMBER OF
NEGATIVE ASPECTS. IT WOULD BE DEEPLY RESENTED BY OUR
TRADING PARTNERS. AT THE SAME TIME IT COULD SIGNIFICANTLY
ADD TO INFLATION IN THE UNITED STATES, ALREADY WORSENERED BY
THE DEPRECIATION OF THE DOLLAR.

IN LIGHT OF THE ABOVE, I WOULD NOT CURRENTLY RECOMMEND USE
OF SECTION 122 AS A REMEDY FOR OUR PRESENT BALANCE OF PAY-
MENTS DIFFICULTIES. AT THE SAME TIME, HOWEVER, I RECOGNIZE
THAT IT PROVIDES A LEGITIMATE OPTION, AUTHORIZED BY
CONGRESS IN THE TRADE ACT OF 1974, WHICH MIGHT PROVE USE-
FUL UNDER DIFFERENT CIRCUMSTANCES. SINCERELY, ROBERT S.
STRAUSS END TEXT

VANCE

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LEGISLATIVE MAIL, TRADE CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 aug 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE203173
Document Source: CORE
Document Unique ID: 00
Drafter: RNKILPATRICK:BCL
Enclosure: DG ALTERED
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780328-0532
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780876/aaaaclo.tel
Line Count: 152
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a1ba5b65-c288-dd11-92da-001cc4696bcc
Office: ORIGIN SS
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: EXDIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1774955
Secure: OPEN
Status: NATIVE
Subject: STR STRAUSS LETTER TO CONGRESSMAN VANIK
TAGS: ETRD, JA, US
To: TOKYO
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a1ba5b65-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014